

Message Text

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43

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 ABF-01 FSE-00

DRC-01 /181 W

----- 094197

R 161334Z AUG 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4453

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL FRANKFURT

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS BONN 12986

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652:N/A

TAGS: EFIN GW

SUBJECT: FINANCIAL DEVELOPMENT (WEEK ENDING AUGUST 15)

REF: BONN A-398

1. FAILURE OF PRIVATE BANKING HOUSE BASS AND HERZ. ON AUGUST 12
THE SMALL FRANKFURT BANKING HOUSE BASS AND HERZ RETURNED ITS
BANKING LICENSE TO THE GERMAN BANKING SUPERVISORY AUTHORITY AND
ANNOUNCED ITS FAILURE. THE BANK WAS NOT ENGAGED IN FOREIGN EXCHANGE
TRANSACTIONS-THEREFORE CONTRASTING IT FROM THE HERSTATT COLLAPSE
SIX WEEKS AGO. BASS AND HERZ WHICH HAD A BUSINESS VOLUME OF ONLY
DM 80-100 MILLION WAS THE HOUSE BANK OF THE SCHAFFGOTSCH

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INDUSTRIAL AND MINING EMPIRE. THE DAY AFTER THE BANK FAILURE

GRAF SCHAFFGOTSCH, THE MAJOR OWNER OF BASS AND HERZ, APPLIED FOR LIQUIDATION PROCEDURES BOTH FOR THE SCHAFFGOTSCH BERGWERKS-GESELLSCHAFT, MUNICH (THE HOLDING COMPANY OF THE SCHFFGOTSCH GROUP) AND HIS PRIVATE PROPERTY. THE FAILURE OF BASS AND HERZ THEREFORE APPEARS TO BE A CONSEQUENCE OF THE SCHAFFGOTSCH DIFFICULTIES.

2. BEFORE THE SECOND WORLD WAR THE SCHAFFGOTSCH FAMILY WAS ONE OF THE RICHEST IN GERMANY HAVING SUBSTANTIAL REAL ESTATE PROPERTY IN SILESIA AND EXTENSIVE MINING INTERESTS IN THE UPPER SILESIAN MINING DISTRICT. AFTER THE WAR THE FAMILY REORGANIZED ITS EMPIRE USING AS ITS BASE THE PROPERTY HELD IN THE FRG AND THE EQUALIZATION OF BURDENS PAYMENTS FOR THE EXPELLATION FROM SILESIA.

3. THE CONSORTIUM OF GERMAN BANKS HAD PROVIDED A REPORTED DM 20 MILLION IN LIQUIDITY SUPPORT TO BASS AND HERZ ABOUT 2 WEEKS AGO (SEE BONN A-398). BUT HAD WITHDRAWN THIS SUPPORT WHEN IT WAS DISCOVERED THAT THE DIFFICULTIES OF BASS AND HERZ WERE DIRECTLY CONNECTED WITH THE FINANCIAL PROBLEM OF THE SCHAFFGOTSCH GROUP. THE CONSORTIUM, HOWEVER, WILL FULLY COMPENSATE PRIVATE NON-BANK LOSERS (PROVIDED THEY DO NOT BELONG TO THE SCHAFFGOTSCH GROUP).

4. FOREIGN EXCHANGE MARKET. THE POSITION OF THE DOLLAR AGAINST THE DEUTSCHEMARK STRENGTHENED. THE GERMAN FINANCIAL PRESS ATTRIBUTED THIS MAINLY TO THE INAUGURATION OF PRESIDENT FORD AND HIS DRIVE TO COMBAT INFLATION IN THE UNITED STATES. DURING THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARDED DOLLARS			
SPOT DOLLARS		DISCOUNTS/PREMIUM IN PERCENT P.A.	
		ONE-MONTH	THREE-MONTH
AUGUST 8	DM 2.5998	-4.4	-4.6
9	2.5875	-4.6	-4.5
12	2.5990	-4.4	-4.5
13	2.6142	-4.4	-4.6
14	2.6150	-3.4	-4.1
15	2.6085	-3.9	-4.5

5. WITHIN THE JOINT FLOAT THE DEUTSCHEMARK REMAINED THE WEAKEST CURRENCY AND ALL FLOAT CURRENCIES REMAINED AT OR NEAR THEIR UPPER DEUTSCHEMARK INTERVENTION POINTS.

6. MONEY MARKET. THE GERMAN MONEY MARKET REMAINED THIGHT. ALL MONEY RATES REMAINED ABOVE 9 PERCENT, THE INTEREST RATE AT WHICH UNCLASSIFIED

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THE BUNDESBANK GRANTS LOMBARD CREDITS TO BANKS. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS: CALL MONEY ONE -MONTH MONEY THREE-MONTH MONEY

AUGUST 8	9.0-9.2	9.2-9.4	9.5-9.7
9	9.0-9.2	9.2-9.4	9.5-9.7

12	9.0-9.2	9.2-9.4	9.5-9.7
13	9.0-9.3	9.2-9.4	9.5-9.7
14	9.0-9.4	9.0-9.3	9.5-9.8
15	9.0-9.2	9.1-9.3	9.4-9.6

7. MONETARY RESERVES. IN THE FIRST WEEK OF AUGUST MONETARY RESERVES DECLINED FURTHER BY DM 1.1 BILLION TO DM 91.2 BILLION. (SINCE THE MIDDLE OF JUNE WHEN THE CURRENT DECLINE IN BUNDESBANK MONETARY RESERVES BEGAN THE BUNDESBANK HAS LOST RESERVES OF DM3.2 BILLION). HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 770 MILLION WHILE GERMANY'S IMF GOLD TRANCHE POSITION INCREASED BY DM 342 MILLION AND GROSS LIABILITIES BY ABOUT DM 670 MILLION.

8. BANK LIQUIDITY. IN THE FIRST WEEK OF AUGUST BANK LIQUIDITY DECLINED BY DM 4.4 BILLION THE MAJOR FACTOR REDUCING BANK LIQUIDITY WAS THE DM 5.5 BILLION REPLENISHMENT OF THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK WHILE THE ABOVE-MENTIONED DECLINE IN BUNDESBANK MONETARY RESERVES AND OTHER FACTORS (DM 1.8 BILLION, NET) CONTRIBUTED. LIQUIDITY WAS INCREASED BY A DM 2.9 BILLION DECLINE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK AND THE USUAL DECLINE IN CURRENCY IN CIRCULATION AT THE BEGINNING OF A MONTH (DM 1.1 BILLION). THE BANKS FINANCED THE LIQUIDITY LOSS BY INCREASING LOMBARD BORROWINGS AT THE BUNDESBANK BY DM 4.3 BILLION AND REDISCOUNT BORROWINGS BY DM 0.1 BILLION.

9. BOND MARKET. PRICES OF DOMESTIC BONDS INCREASED SOMEWHAT. DURING THE REPORTING WEEK THE FAZ AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

AUGUST 8	11.31	11.22	10.53
9	11.29	11.22	10.52
12	11.29	11.21	10.47
13	11.27	11.18	10.48

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14	11.27	11.16	10.48
15	11.25	11.14	10.51

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